HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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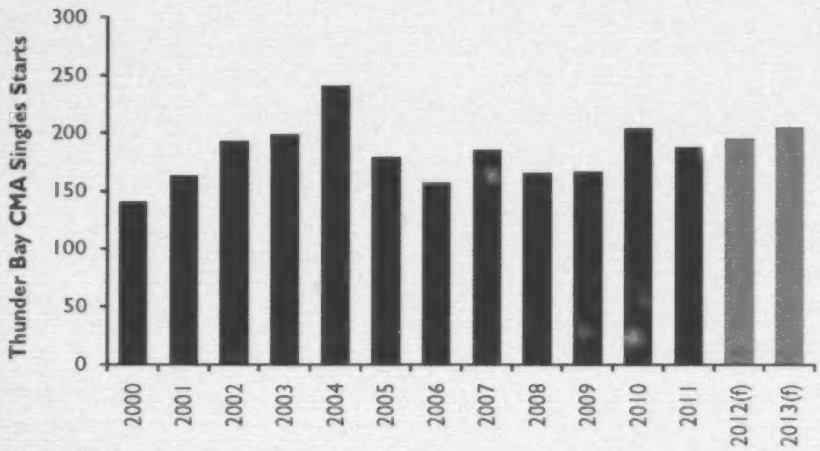
Market at a Glance

- Supply will limit home buying with sales falling one per cent this year and showing only modest growth in 2013. Strong seller's market conditions will persist in 2012 with demand outstripping supply. Average resale prices will rise nine per cent in 2012 in Thunder Bay and another seven per cent next year.
- Single-detached housing starts will rise 3.7 per cent this year and another 5.1 per cent next year as demand spills over into the new home market. Starts of apartment units will trail an unusually strong 2011 construction year. This will cause total housing starts to fall five per cent in 2012 and a further eight per cent in 2013.

Figure 1

Thunder Bay Single Starts To Rise



Source: CMHC

* The forecasts included in this document are based on information available as of April 27, 2012.

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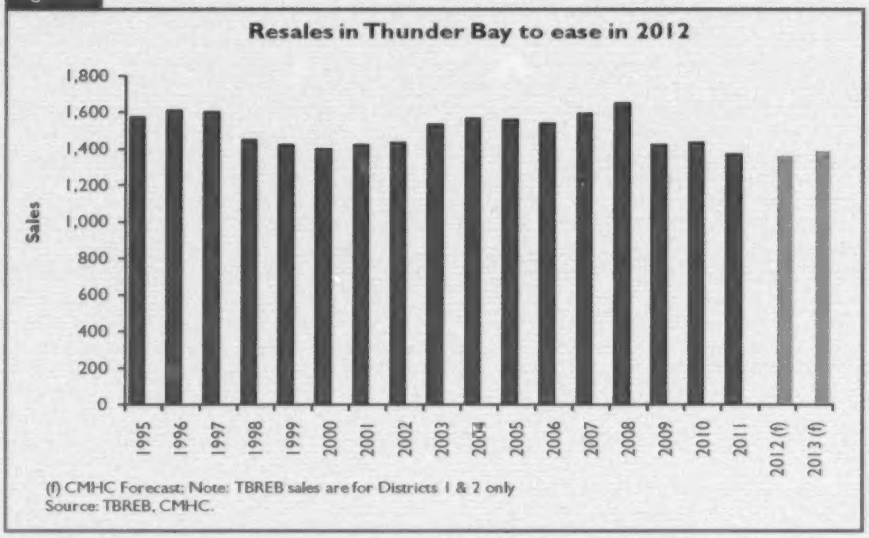
- Mining activity and a growing knowledge based economy is beginning to reveal itself in growing employment numbers. Further net in-migration is expected during the forecast period.

Resale Homes Market

Seller's market conditions to continue

Growing employment numbers and some pent-up demand will ensure a tight resale market persists this year in Thunder Bay. Nevertheless, sales will actually fall nearly one per cent in 2012 as supply fails to keep pace with demand. Expect sales will grow by 2.2 per cent in 2013 as empty nesters and some first time homebuyers look to some higher density ownership options that come on the market. The gap between actual income and required income[1] to buy an average home is the largest among CMAs in the province. This suggests, that Thunder Bay continues to be the most inexpensive market across the province despite rising home prices.

Figure 2

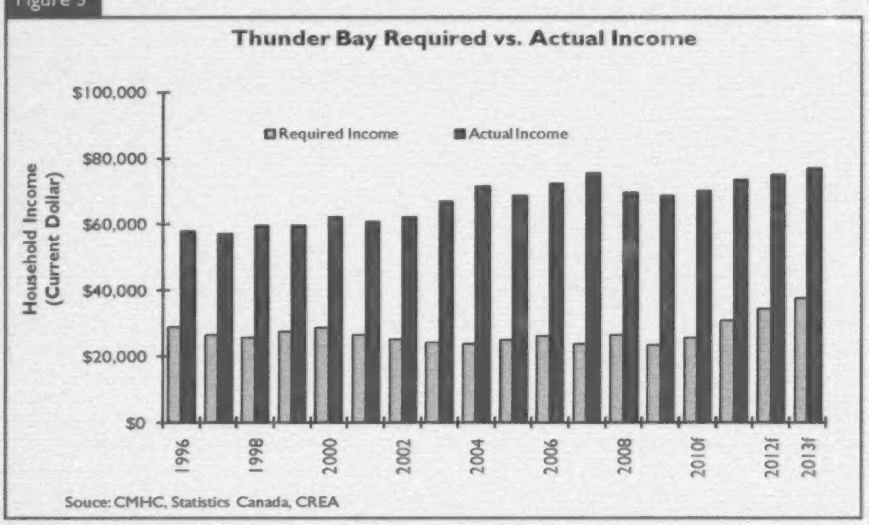


Employment growth will be a catalyst supporting housing demand this year and next. Solid incomes found in the goods producing sector, will make employment gains in this sector bode well for the local housing market.

Finally, although the front end of the baby boom retiring will affect employment levels, job growth for the 25-44 age group will strengthen home-buying activity.

Home price increases should prompt more homeowners to list their dwellings this year and next but not enough to take the edge off the demand that exists. New condominium product offers will loosen up some supply for homeownership and for investment purposes, as investors may choose condominium units to be rented given that new rental supply is scarce. Thunder Bay has long been known as a market with a higher than average percentage of single-detached homes. As household occupants age they are showing a significant propensity to stay in their home even as children age and leave the home. This phenomenon will continue to limit the growth in listings. A listings shortage will continue to push prices

Figure 3



[1] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

higher with a nine per cent increase in average house prices expected in 2012. In 2013, prices will rise another seven per cent.

New Home Market

Single-detached starts to top ten-year average

The 2011 tally for single-detached home starts of 188 units matched the ten year average exactly but it was the count for starts of higher density housing units that was exceptional. The 166 housing starts were sixty units higher than the 30 year average starts of semi-detached, row and apartment starts. CMHC expects single-detached starts to climb to 195 units in 2012 and rise again next year. Another above average year for multi-family starts will bring the 2012 total to 355 units.

Apartment condominium units will be the dominant form of higher density housing units this year and next. Pent-up demand for ownership units is driving the move towards new higher density ownership options. Projects scheduled to come on stream this year will each offer something different to consumers seeking the lifestyle that condominium living brings. Nevertheless, the new home market will be only partially able to fill demand spilling over from the resale market primarily due to a combination of factors. These factors include increasing construction costs, fully serviced land availability and relatively small homebuilding industry that is already being stretched to support ongoing construction activity.

Speculative building remains absent in the Thunder Bay market. The average number of newly completed and occupied unit sits at five units for the first quarter of 2012, up from three last year but well below a level that would cause any concern. No marked change is expected in this indicator.

Looking at a six month average of completed and occupied units, prices are up nearly six per cent, year-over-year to a level topping $330,000 whereas in 1998 and 1999, average prices for a new home were estimated to be $171,000. New home prices for 2012 are expected to rise six per cent this year and a further four per cent next year. Strong growth in resale prices and higher costs for land and other building materials will encourage builders to raise prices.

Economic Overview

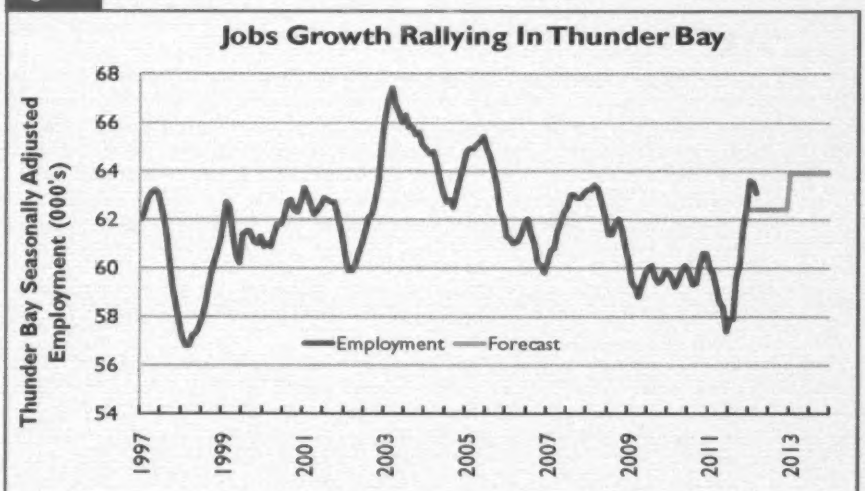
Employment growth leaps ahead in Thunder Bay

While the forest industry downturn had a negative effect on the city over most of the past decade, the Thunder Bay economy has diversified its economic base by re-inventing itself. The goods-producing sector of the local economy will continue experiencing an improved picture, with both mining and employment at Thunder Bay's rail car manufacturer being key in this regard. Mining exploration and development along with jobs connected with medical research will gain more importance to the Thunder Bay economy.

One concern is that the Thunder Bay economy, with its significant government job sector will feel the effects of fiscal restraint. The provincial and federal budgets recently announced, both outlined cuts that will impact government jobs numbers in Thunder Bay. The ultimate job impact is not known at this time.

Stronger income growth linked to continued movement towards more mining, medical research and spinoff knowledge sector jobs and overall tightening conditions as evidenced by the declining unemployment rate is being observed. Look for average weekly earnings to grow 2.1 per cent this year and another 2.7 per cent in 2013.

Figure 4



to March 2012, Forecast 2012 and 2013.
Source: Statistics Canada Labour Force Survey

Thunder Bay and Northwestern Ontario: A hotbed of mining activity

Likely mines coming on stream in Greenstone, Marathon and Rainy River will all positively affect Thunder Bay, not to mention development at the Ring of Fire, 350 kilometres north of Nakina in Northwestern Ontario. On the other hand, currently stocks in the junior exploration sector are down and have been for six months to a year. This may affect 2012 exploration activity. Advantages of Thunder Bay include its proximity to Vancouver, headquarters of junior mining companies, Toronto or Europe from the Thunder Bay International Airport.

Thunder Bay's population dips slightly

Thunder Bay's population has moved in a very narrow band between 115,000 and 125,000 since 1971. The 2011 population represented a slight 1.1 per cent dip compared to 2006. With anticipated employment growth and an already improving trend in migration, in-migration is forecast to pick up again this year and next driven by continued intra-provincial and international migration.

Mortgage Rate Outlook

CMHC uses publically available information and the consensus among major Canadian forecasters as a basis for its interest rate forecast. Although there is significant uncertainty, consensus forecasts suggest that interest rates are not expected to rise until at least later in 2012, but will remain low by historical standards, thus supporting the Canadian housing market.

According to CMHC's base case scenario, posted mortgage rates will increase near the end of 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.1 to 3.6 per cent range, while the five-year posted mortgage rate is forecast to be within 5.0 to 5.4 per cent. For 2013, the one-year posted mortgage rate is expected to rise with interest rates and be in the 3.5 to 4.1 per cent range, while the five-year posted mortgage rate is forecast to be within 5.1 to 5.6 per cent.

Forecast Summary Thunder Bay CMA Spring 2012							
	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	1,421	1,434	1,373	1,360	-0.9	1,390	2.2
MLS® New Listings	1,987	1,831	1,677	1,750	4.4	1,850	5.7
MLS® Average Price ($)	145,074	155,060	168,672	184,000	9.1	197,000	7.1
New Home Market							
Starts:							
Single-Detached	166	204	188	195	3.7	205	5.1
Multiples	14	18	186	160	-14.0	120	-25.0
Semi-Detached	6	10	8	10	25.0	10	0.0
Row/Townhouse	4	4	12	16	33.3	10	-37.5
Apartments	4	4	166	184	10.8	170	-7.6
Starts - Total	180	222	374	355	-5.1	325	-8.5
Average Price ($):							
Single-Detached	270,513	319,582	324,604	344,081	6.0	357,844	4.0
Median Price ($):							
Single-Detached	274,900	309,900	312,000	324,480	4.0	332,592	2.5
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	0.7	-0.5	0.1	0.9	-	1.0	-
Rental Market							
October Vacancy Rate (%)	2.3	2.2	1.7	1.5	-0.2	1.3	-0.2
Two-bedroom Average Rent (October) ($)	742	763	772	793	2.7	815	2.8
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	59,600	59,800	59,500	62,400	4.9	63,900	2.4
Employment Growth (%)	-4.2	0.3	-0.5	4.9	-	2.4	-
Unemployment rate (%)	8.3	6.6	6.9	6.4	-	6.3	-
Net Migration	137	454	451	300	-33.5	350	16.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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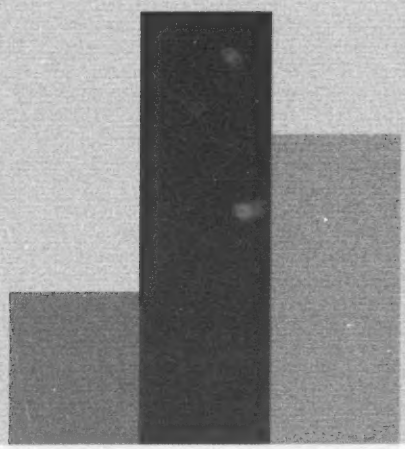

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